

Message Text

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ACTION TRSE-00

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FM AMEMBASSY LUSAKA
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C O N F I D E N T I A L LUSAKA 0764

E.O. 11652: GDS
TAGS: EFIN ZA
SUBJ: ZAMBIA AND THE IMF

1. IMF NEGOTIATING TEAM CONCLUDED TWO WEEKS OF MEETINGS WITH GRZ ON MARCH 8. ONLY LIMITED AND OFTEN CONFLICTING INFO AVAILABLE LOCALLY ON OUTCOME OF DISCUSSIONS. HOWEVER, EMBASSY CONCERNED ABOUT SOME OF THE POINTS REPORTEDLY DISCUSSED DURING THE MEETINGS. MOST SIGNIFICANT ARE THE LEVEL AND TIMING OF IMF ASSISTANCE AND DEVALUATION.

2. MOST CONSISTENT INFORMATION IS THAT IMF OFFERING \$250-300 MILLION IN ASSISTANCE SPREAD EVENHY OVER A 3-YEAR PERIOD, I.I., APPROXIMATELY \$100 MILLION PER YEAR AT BEST. EMBASSY RECOGNIZES LIMITATION ON LEVEL OF IMF SUPPORT AND CONSIDERS THE \$300 MILLION REALISTIC. HOWEVER, IT IS OUR OPINION THAT SPREADING THIS AMOUNT OUT OVER THREE YEARS WILL NOT MEET THE IMMEDIATE NEEDS OF ZAMBIA.

3. APART FROM THE QUESTION OF DEBT SERVICING, THE PROBLEM OF ARREARS TO SUPPLIERS IS BECOMING CRITICAL. LONG-TIME SUPPLIERS ARE BALKING AT EXTENDING THEMSELVES ANY MORE IN ZAMBIA. CLEARLY THERE IS A NEED TO RENEW SUPPLIER CONFIDENCE IN ZAMBIA AND EMBASSY UNDERSTANDS THAT PORTION OF IMF FACILITY WILL BE EARMARKED TO MEET SOME PAYMENT ARREARS.
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THE PROBLEM AS WE SEE IT IS THAT A FACILITY OF ONLY \$100 MILLION THIS YEAR WOULD NOT BE SUFFICIENT TO (A) SIGNIFICANTLY REDUCE ARREARAGES, (B) FINANCE NEEDED IMPORTS, AND (C) ASSIST ZAMBIA IN MEETING EXTERNAL DEBT SERVICING OBLIGATIONS. EMBASSY BELIEVES THAT MORE MEANINGFUL IMPACT COULD BE ACHIEVED BY MAKING ASSISTANCE AVAILABLE IN SHORTER TIME FRAME ASSUMING IMF PLAYS MAJOR ROLE IN USE OF FUNDS.

4. EMBASSY AGREES WITH DEPARTMENT THAT NEGOTIATIONS ON IMF STABILIZATION PROGRAMS BEST LEFT TO ZAMBIA AND IMF (BRIEFING MEMORANDUM OF FEBRUARY 14) BUT IN EVENT THAT QUESTION OF TIMING IS CONSIDERED BY IMF, RECOMMENDS THAT U.S. REPRESENTATIVE SUPPORT ACCELERATED ASSISTANCE TO EXTENT POSSIBLE.

5. REOCCURRING RUMOR THAT IMF DEMANDING SUBSTANTIAL DEVALUATION OF KWACHA ALSO BOTHERSOME. WHILE EVERYONE SEEMS TO AGREE THAT KWACHA IS OVERVALUED, CONSENSUS AMONG DIPLOMATIS, BANKERS AND BUSINESSMEN IS THAT DEVALUATION WOULD SERVE NO USEFUL PURPOSE AT THIS TIME AND MIGHT BE COUNTERPRODUCTIVE. DEVALUATION WOULD NOT ASSIST ZAMBIA IN MARKETING ADDITIONAL COPPER. IT WOULD MAKE IMPORTS CONSIDERABLY MORE EXPENSIVE AT A TIME WHEN ZAMBIA NEEDS TO GET THE MAXIMUM POSSIBLE FOR ITS MONEY. THERE APPEARS TO BE ONLY MINIMAL AMOUNTS OF "RIVOVIOUS EXPENDITURE FOR IMPORTS. MOST ARE NECESSARY

SIMPLY TO KEEP THE ECONOMY GOING. THUS, THE VOLUME OF IMPORTS CANNOT BE REDUCED MUCH FURTHER, IF AT ALL, WITHOUT CREATING WORSE PROBLEMS FOR ZAMBIA. IF A DEVALUATION IS BACK-DATED, ALREADY NERVOUS SUPPLIERS WILL SUFFER A CONSIDERABLE LOSS ON ACCOUNTS RECEIVABLE.

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6. EMBASSY WOULD APPRECIATE COMMENTS ON THE ABOVE AND ANY INFO DEPARTMENT ABLE TO DEVELOP ON RESULTS OF IMF TEAM'S VISIT TO ZAMBIA NOW THAT THEY HAVE RETURNED TO U.S. LOW

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